



***2009 State of the State/State Budget Message  
The Honorable C.L. "Butch" Otter  
Governor of Idaho  
January 12, 2009***

Mr. Speaker, Mr. President, Mr. Pro Tem, honorable members of the Legislature, Mr. Chief Justice and distinguished members of the Judiciary, my fellow Constitutional Officers, First Lady Lori, my family, and my fellow Idahoans.

Before I begin, let me recognize our NEW lieutenant governor, Brad Little.

Congratulations Brad, and good luck.

Thank you for being here today, for the second and probably the last time that this State of the State address will be delivered at Boise State University's Special Events Center.

I'm grateful to President Kustra and his staff for being our hosts in this fine facility. ... My thanks to Bob and Kathy Kustra, and all our hosts here at Boise State.

Also, I want to thank those of you who are watching or listening to this broadcast across the Great State of Idaho.

And I want to send along Idaho's collective prayers and best wishes to former Senator Jim McClure, for a speedy and full recovery. God bless you Jim and Louise. You remain in our thoughts and prayers.

It's my hope and certainly our intention that we all will be back in the renovated Capitol Building by this time next year. Work there is progressing well – on time and on budget – and the restored Capitol promises to be a grand and historic home for the people's business for years to come.

This is a rare and wonderful opportunity for all the people of Idaho to participate in our government – in this great legislative process that is the manifestation of our freedom and our responsibility as citizens, and as a state.

Times such as these make it possible to celebrate, reflect and learn from the miracle of Philadelphia.

Ladies and gentlemen, as a member of the Idaho House of Representatives 32 years ago, I ran for Governor on the principle that "Idaho can become what America was meant to be. I believe now as I did then that Idaho has a better chance than anywhere else of becoming what the forefathers envisioned in Philadelphia.

There is no doubt that our nation is going through troubled times. But I firmly believe that Idaho can provide leadership for an anxious nation – to be what Franklin referred to as the "Laboratory of the Republic."

States have a unique ability and I believe a responsibility to experiment and make America better for future generations.

Of course that means keeping the ideals of freedom, personal responsibility, and empowerment of the people at the forefront of any government agenda.

Indeed, in these times of economic challenges and societal change, there is no time like NOW to realize the hopes and dreams of present and future generations of Idahoans.

Hopes for a state where individuals and ideas can take root and grow.

Dreams of a state government that understands its intended role in people's lives and – first and foremost – a government that understands how to live within the people's means.

As you all know, our “means” are not what they were when we last met here a year ago.

Idaho has had several years of being among the nation's economic leaders, growing at a phenomenal pace. But as the nation's economy has slowed and even stalled, so has Idaho's.

We are better off than many states. However, we as leaders must be sensitive to the fact that far too many Idahoans are out of work or under-employed. Too many Idahoans are struggling to make ends meet, and having to make tough choices in their personal and household budgets.

We are not immune from the global economic downturn.

While it may not feel like it now, your wisdom and frugality have helped position us to make Idaho's recovery less difficult and – we hope – quicker than it might otherwise be.

Idaho's independent, common-sense character and wise regulatory oversight under Finance Director Gavin Gee have kept us and our financial institutions out of the riskier and more volatile situations contributing to the world's economic challenges.

The diversity and entrepreneurial spirit of Idaho's citizens has enabled us to make real progress in advancing initiatives on energy, the environment and job development. And our conservative values and commitment to making the best use of our resources are contributing to a positive sense of community, shared responsibility and real opportunity.

I applaud all Idahoans for pulling together and recognizing opportunities to help a neighbor, or to support your local businesses – especially during the past holiday season.

No doubt about it – times are tough. But they have been tough before, and we have weathered the storm by working together with a common purpose.

The economists tell us we're in a recession. Well, a generation of great Idahoans lived through the Depression and came out stronger and more determined to succeed – heroes like Warren McCain, Louise Shadduck, J.R. Simplot, and Medal of Honor recipient Ed Freeman.

They and many others of their generation set a standard for grace and grit that we would all do well to emulate. It is my hope that we can honor their memories and their sacrifices by responding to difficult times with selflessness and high regard for our fellow man.

Idaho also was struggling through a rough patch in our economy when I served as lieutenant governor in 1987. Back then, people were saying the state of Idaho might as well just turn out the lights and quit – that things would never be as good again as they had been prior to that economic downturn.

Well, they were wrong then, and the naysayers are just as wrong now!

I'm not wearing rose-tinted glasses. But I am a glass-half-full kind of guy.

I know those of us in state government are facing the same kinds of painful, gut-wrenching choices that individuals and families all over Idaho are making with their personal finances. And the decisions you and I make will bear on the ability of every Idahoan to fulfill their own responsibilities.

But we have the experience, the knowledge, the talent, and the determination to come out of this stronger and better than we were before – just as Idaho has done in the past.

Now – as you know – declining revenue prompted my decision to order holdbacks totaling 4 percent of the General Fund money appropriated for the budget year that now has reached its midpoint.

State agencies also are holding an additional 2 percent of their General Fund appropriations in reserve as a hedge against further revenue declines.

The impact is serious.

Fundamental changes are being made in the way we do business. Every director, administrator and employee in state government is re-evaluating processes and rethinking priorities.

Some services that were meeting public demands – and in some cases have become expected of state government – have had to be reduced or eliminated.

Our new Zero-Base Budgeting process already is identifying a number of programs and operations that have been pursued or continued at taxpayer expense but with no specific statutory authority or direction.

It is my intent to continue an unrelenting scrutiny of state government programs that use Idahoans' hard-earned dollars.

Make no mistake: Nobody enjoys cutting budgets. I understand real people with real needs are affected. The decisions are difficult and always made only after careful consideration.

The question that you and I must honestly answer on every occasion is whether meeting those real needs falls within the sphere of the necessary and proper role of taxpayer-funded government services.

While we are hopeful for a speedy economic recovery, it is our responsibility to prepare for the worst – to be careful stewards of taxpayer dollars.

We have a constitutional requirement to provide a balanced budget. And that requirement becomes especially important when – as now – the economic forecast is relatively bleak.

To that end, I am submitting a Fiscal 2010 budget to you today that reflects both our caution and our continuing efforts to ensure Idaho meets the future head-on.

I'm calling for a reduction in total General Fund spending of more than 7 percent from what initially was approved for Fiscal 2009. That reflects a realistic and thorough assessment of our needs and our capabilities. And I believe it reflects the kind of frugality and common sense that most Idahoans expect and deserve.

As you know, public schools are exempted from this year's budget holdbacks, thanks to the Public Education Stabilization Fund that you established during better economic times.

It would have been unfair and unwise to ask public schools to share in the burden of budget holdbacks in the middle of an academic year.

There simply was too little time and too many obligations already made on the local level for school officials to make the adjustments that would have been needed to reduce their spending so significantly.

But there is time, and unfortunately there is the need for public schools to be included in the difficult realities of our economy as we plan for Fiscal 2010.

The budget recommendation you received today includes a General Fund allocation for public schools that is about 5-and-one-third percent less than this year's appropriation.

However, the \$1 billion, 425 million I'm proposing for K-through-12 education next year still represents almost half our total General Fund budget.

And the fact is that my proposed public schools budget is reduced FAR less than I'm recommending for other state agencies.

For example, my General Fund budget proposal for Health and Welfare is down 7½ percent. Higher education is down almost 10 percent; the departments of Correction and Water Resources each are down almost 12 percent. The Department of Agriculture recommendation is down more than 31 percent, Commerce more than 51 percent, and Parks and Recreation almost 56 percent.

The K-12 budget I'm proposing also does not dip any further into the public school rainy day funds.

The unfortunate reality is we just don't know how long or how bad this economic downturn is going to be. It is by far the wiser and more prudent course to be cautious and conservative in how we use reserve accounts. Indeed, my overall budget recommendation calls for using no more than 35 percent of the total reserves in our rainy day funds to see us through Fiscal 2009 and throughout Fiscal 2010.

I am confident that many of you have ideas for improving on my budget recommendation. That's as it should be. Idaho is depending on each of us to work together for the good of all our citizens.

We are fortunate to have the strong, statewide perspective of Chairmen Bell, Cameron, Hill and Lake guiding our efforts. But my job is to lead the way by recommending what the people, the laws of our great state and the Constitution on which they are based require of our government – of the people's servants.

At the same time, my budget recommendation lays the foundation for advancing Project 60 – which is crucial in positioning Idaho for economic recovery and future prosperity.

My plan for growing Idaho's economy and creating good jobs for years to come already is under way – and showing results. Commerce Director Don Dietrich is leading this program, working in tandem with agencies throughout state government and with the private sector.

One of its goals is nurturing a new generation of entrepreneurial giants.

We want to encourage and create a climate that enables visionaries like the Simplots, Albertsons and Morrisons of yesterday – and like the Parkinsons, Hagadones, Vandersloots and Sayers of our own generation – to create more jobs and brighter futures for Idaho families and communities.

Project 60 involves almost every element of state policy – from education and workforce development to quality of life and recruiting foreign investment and trade. It is designed to strengthen both our rural and urban communities, to leverage our strengths here at home while taking advantage of the dollar's weakness abroad.

But Project 60's success – and in large measure Idaho's success – depends on our willingness to address the infrastructure challenges we face – not only roads and bridges but energy transmission, water supply, information networks and educational resources.

Elements of Project 60 are being applied to our work with such companies as AREVA, ALK Abello Source Materials, Hoku, DOT Foods and many others.

The initiative is driving our retooled Innovation Council, which is going to take the lead in technology transfer and commercialization.

The Innovation Council's marching orders are to provide a practical and business-oriented approach to turning ideas into jobs and economic activity. That means working more closely with the Idaho National Laboratory as it enters its seventh successful decade in Idaho. It means coordinating the efforts of our colleges and universities and other research partners – public and private – to quickly and efficiently determine what works and how it can be applied in the marketplace.

Folks, we are leaving no stone unturned in our search for ways to add value to Idaho and our economy.

For instance, we were ready when Congress approved the Neighborhood Stabilization Program late last summer in response to the foreclosure crisis. Now we are only awaiting federal approval of our plan for making the best use of \$19.6 million in assistance to Idaho families.

The plan put together skillfully by Gerald Hunter and his committee of stakeholders focuses on areas of Idaho where foreclosures hit communities hardest last year, and where these critical housing resources are needed most. We hope to see that federal financial help arriving within a few months.

Another element of our efforts is the work of the Pacific Northwest Economic Region – otherwise known as PNWER.

PNWER is an important forum for public-private partnership in economic development and global competitiveness. Its reach extends throughout the Northwest United States and western Canada. And I'm pleased to announce today that Idaho will be hosting PNWER's 19<sup>th</sup> Annual Summit this coming July 12<sup>th</sup> through the 16<sup>th</sup>, here in Boise.

In fact PNWER has a delegation with us here today.

Idaho truly is part of a national and a global economy.

There's no getting around the fact that our fortune and our future is tied to that of our nation and the world. But once again: It's up to each of us to fully play a role in our economic recovery. It's up to each of us to ensure people have the tools they need to live up to their individual potential.

If Idaho is going to compete effectively in the marketplace of goods and ideas, it is critical that we as a state provide the infrastructure for success. That means clean air and water. It means education, energy and information. And it means safe, efficient corridors of commerce.

It means transportation.

No other issue has dominated public discourse or my own efforts more over the past year than how to address the enormous and growing backlog of maintenance and construction needs on our system of highways and bridges.

I have appreciated working on this issue with many of you, with our Transportation Board and with local leaders and citizens in every corner of our state. The result of those labors is a plan that I believe is reasonable, achievable, and absolutely essential to our economic well-being and Idaho's prospects for the future.

Just as importantly, it reflects what I heard during months of listening to the people we serve statewide, conferring with experts here and in other states, and challenging everyone involved to think creatively.

And now I'm challenging you to join me in making the tough choices that will be necessary to achieve our transportation goals.

As was reported last month, my plan boils down to three points.

First, accountability and efficiency.

Money we already have and any new revenue we generate must be put to work as efficiently as possible. We must be able to see measurable results from those efficiencies to ensure that they meet our expectations.

That's why I directed the Idaho Transportation Department last month to immediately cut its administrative costs by 10 percent. That's consistent with the kind of efficiencies that other agencies are being required to identify, even though ITD's revenue is not part of the General Fund.

In addition, ITD will be submitting an annual accountability report to me, the Idaho Transportation Board, and the chairs of the House and Senate Transportation committees. That report will detail all the revenue generated for transportation work each year, and exactly where and how it's spent.

The report also will provide updates on ITD's progress toward implementing the recommendations of all legislative audits and outside reviews of the agency's operations.

Additional accountability measures will be put in place – and they will be closely monitored to ensure that all transportation dollars are put to their best and most efficient use.

But no amount of efficiency – however important – will make up for the hard fact that we have let our investment deteriorate. We have not kept up with the kind of maintenance and repairs that any good enterprise must make a priority for such a basic capital resource. And we have not kept up with our population growth or the demands of our citizens and economy.

Simply put, our transportation revenue system isn't designed to meet our needs today.

So the second part of my plan is generating new revenue.

I'm proposing to increase our fuel tax by 2 cents a gallon in each of the next five years – for a total of a 10-cent increase in the tax, to 35 cents a gallon.

That will bring in about \$17.6 million in additional fuel tax revenue the first year. And after five years it will generate a total of about \$88 million a year extra for transportation.

To put that in perspective, we raised the fuel tax to 25 cents 13 years ago. And now here we are trying to accomplish 2009 goals with 1996 dollars. Everyone in this room or listening to me throughout Idaho today – everyone who has a household budget or runs a business – knows that just doesn't work.

So I also will be asking you to approve increases in our vehicle registration fees in a way that updates our system while continuing to take the age of vehicles into account.

My plan will raise about \$15 million in new revenue from registration fees in the first full year it's implemented. After five years, the registration changes I'm proposing will generate about \$51 million a year in additional revenue.

I also am proposing a 6-percent excise tax on car rentals, and that we eliminate the ethanol exemption from the fuel tax. And I want to shift the 5 percent of fuel tax revenue that the Idaho State Police NOW gets in order to put another \$16 million a year into our roads and bridges.

Along with registration fee and fuel tax increases for truckers, the third part of my plan includes establishing a task force on truck transportation to study the validity of – and perceived inequities in – Idaho's truck registration system.

At the same time, I'm going to take the advice of House Transportation Chairman JoAn Wood.

And by the way, I want to thank JoAn AND Senate Transportation Chairman John McGee for their work and leadership on this issue.

Chairman Wood has been saying for some time that the General Fund should be contributing to our transportation system. So I'm going to direct the Tax Commission to set up a system to track the sales of all automobiles, tires and auto parts.

Determining the size and stability of that particular revenue stream is a necessary step before we can even consider using those sales tax receipts for our highways and bridges. While I am not advocating a shift in those revenues today, it is important for us to compile the data so that we can make informed decisions down the road.

My overall plan ultimately will raise more than \$174 million a year in new revenue for transportation after five years. Now, I know that's not the \$240 million a year that we all have

been talking about. But these are difficult times for many Idahoans. And as I said earlier, it is important that we find ways to do our jobs within their means.

I also am convinced that we don't yet fully understand all that we as a state – as a family – are capable of achieving together.

So along with a lot more efficiency, greater accountability and setting our priorities wisely, six months of listening to the Idahoans who hired us tells me that this conservative, measured and phased-in approach will work.

Now, I know there is never a good time to raise taxes or user fees. I have fought against over-taxation my entire career – here at home and as a member of Congress.

But I also am an old farmer and agri-businessman. I know what it is to struggle with the cost of staying in business – much less planning for the next year's budget.

And ladies and gentlemen, I can tell you that we are shirking our responsibility and ignoring the facts if we don't step up to our duty to maintain what taxpayers already have built, to do what's necessary to sustain and enhance our economy and quality of life.

Answering our transportation challenges – like facing our budget dilemma – will require the vision to see opportunities where some might see only problems.

The time for debate has passed. We have talked this issue to death.

And to paraphrase Teddy Roosevelt, "Rhetoric is a poor substitute for action. ... If we are really to be a great (state), we must not merely talk (big) – we must ACT big."

It will require that same kind of vision and commitment-to-act if we are to tackle our other important and pressing concerns – from jobs and energy to education and health care. But we must never forget that our challenges are not about "us." They are about the people we serve and the principles that guide our course.

As President Eisenhower once said, our principles must be in furtherance of "a nation whose every citizen has reason for bold hope, where effort is rewarded and prosperity shared, where freedom expands and peace is secure."

President Eisenhower also said that, "Policies not based on principle retreat to expediency."

Folks, I will not retreat to expediency!

Idaho taxpayers are struggling. And that means we must fulfill our commitment to keep increasing the grocery tax credit. The budget I'm submitting today does just that and holds us to a principle-based policy that empowers Idahoans.

Of course, education is the surest and best way to empower Idahoans to reach their own greatest potential – and, by extension, to help our state become what America was meant to be. Providing Idaho children with a quality education is a constitutional imperative, and it is a proper role of government.

Yet costs and bureaucratic hurdles associated with the administration and governance of education too often keep us from doing as much as we should to prepare our children to become citizens capable of fully participating in society and the economy.

So I will be presenting you with a comprehensive plan for reorganizing our education policy and governance system on the state level.

The plan was developed in close cooperation with the State Board of Education and the State Department of Education. It was reviewed by Senator Goedde, Representative Nonini, Board President Milford Terrell, Superintendent Tom Luna and many others.

Our goal is clarifying responsibilities and lines of authority for programs that represent almost two-thirds of our total General Fund expenditures. The State Board of Education now is far too involved in the day-to-day operations of such programs as the Commission for Libraries, the Historical Society, Vocational Rehabilitation and even the Archeological Survey.

While each is important individually, they are not properly within the Board of Education's oversight.

To achieve our goal, I will be proposing legislation returning the Board of Education to the policy-setting mission envisioned in the Idaho Constitution.

My plan also will reinforce the State Department of Education's role as THE state agency responsible for K-12 education. Many operational functions now in the Boards' hands will be shifted to the Department of Education or the Department of Self-Governing Agencies.

The result will be a Board refocused on oversight, higher education, and the big policy issues facing our educational community statewide. What's more, these changes will help US more effectively and efficiently pursue our goal of creating a public school system in Idaho that is second to none – one that puts aside shopworn practices and prejudices to seek excellence for every Idaho child.

While I'm on the topic of preparing ourselves for the future, let's talk for a minute about health care.

As you know, with the help of Joyce McRoberts, I convened a panel of leading health-care stakeholders from throughout Idaho in August 2007. It developed recommendations for how to make health care more affordable and accessible for Idahoans.

I then formed a smaller Select Committee of health-care experts led by Stephen Weeg to take those recommendations on the road and listen to what Idahoans had to say. The committee members have my sincere thanks. And I want to wish Chairman Weeg a full and speedy recovery from his recent successful heart surgery.

Talk about going the extra mile to explore an issue!

So this coming Saturday, January 17<sup>th</sup>, I will reconvene the original Idaho Health Care Summit participants to review the Select Committee's findings and develop a final implementation plan.

But the committee's recommendations also include some steps that can be taken immediately, and at little or no cost to taxpayers. They include the HEALTHY IDAHO program – affordable individual and family insurance packages for citizens between the ages of 25 and 40 – who make up the largest group of Idahoans who are uninsured.

The packages are offered by private insurers who have been working in partnership with my Select Committee. They offer wellness and preventive care with low co-pays, deductibles as low as \$1,000 and premiums of \$200 or less per month.

Easy-to-understand information and everything you need to enroll is available through a "Healthy Idaho" link on the Idaho Department of Insurance Web site.

At the same time, our Idaho Health Data Exchange is making great progress in connecting doctors, hospitals, and other health-care facilities to enhance the coordination and quality of care for Idahoans throughout our state.

We are stepping up our efforts to inform doctors about the Exchange and sign them up to participate. What health-care providers are finding is that the Exchange will enable them to receive and review test results on their patients electronically, communicate securely with other participating doctors, and even use the system's e-prescription functions.

The idea is to make quality health care more efficient, less costly and – as a result – more accessible to all Idahoans. Yet greater accessibility and affordability are only possible if we have the health-care providers available to treat Idahoans.

I applaud the efforts you have approved so far to increase the number of nurses and other health-care professionals being trained to meet the growing demand for their services right here at home.

But I think we can all agree that our growing and aging population needs more.



So at the recommendation of my Select Committee, I'm establishing an Idaho Health Professions Education Council to lead and coordinate our efforts to address our needs today and into the future.

This is an idea that has worked well in Utah and other states. I've asked Lewis-Clark State College Vice President and Provost Tony Fernandez to lead the council. It will have no more than eight members, and will include representatives from our colleges and universities, health organizations, and members of the public. To keep it focused on its mission, the council won't become part of any bureaucracy or take on any larger agenda. And it will report directly to me.

Now before we wrap this up, let me take just a couple of minutes to mention an upcoming event – the likes of which Idaho has never seen. As you know, the 2009 Special Olympics World Winter Games are coming to Idaho next month!

What you probably did not know is that it will include more athletes and participating nations than the 2002 Winter Olympics in Salt Lake City. There also will be thousands of coaches, officials, families, friends and fans traveling here.

The World Winter Games will be the largest multi-day winter sporting event ever held in our state. Folks, February 7<sup>th</sup> through the 13<sup>th</sup> will be an opportunity for all of Idaho to shine in the international spotlight.

Thanks to the generous support of you and the people of Idaho, the incredible leadership of my friends Chip Fisher and Jim Schmit, and the work of their entire team, the World Winter Games promise to be the kind of positive, memorable and inspirational experience that will benefit our state for years to come – FAR beyond the dollars and cents it will generate. So please come out and support our visitors. Be a fan!

Ladies and gentlemen, as most of you know I've had hip surgery since my last State of the State address. I also have traveled with Idaho businesses to sell our products in Mexico, Hong Kong, Macau, Vietnam and Taiwan. I have signed agreements ending years of conflict and legal wrangling over grass field burning and nuclear waste. And I have brought state government to the people in New Plymouth, Firth, Priest River, Malad, Emmett, Arco, Homedale, Sugar City, St. Maries and Rathdrum.

Later this month I will be in Horseshoe Bend to continue my Capital for a Day effort to reach out to people and communities in every corner of Idaho. In these difficult and trying times, it's more important than ever to ensure that ALL Idahoans have access to the people and programs that serve them.

I know that you share my commitment to that ideal, and to the principles of limited government and unlimited opportunity that shape our thoughts and actions as public servants.

I know that you share my administration's goals of promoting responsible government, enhancing economic opportunity, and empowering Idahoans. I know that you are as devoted as I am to advancing those goals decisively – with certainty – but also with compassion.

And speaking of compassion, I also think it's worth noting that the more quickly you do the people's business the more of their money you save.

With that, let me just say I am proud to be associated with each and every one of you, and to join you in this noble endeavor of continuing to make Idaho what America was meant to be. Thank you. Good luck and Godspeed.